
Session 2 (Day 1 Afternoon)

The Role of Local Government in the Global Economy

Session Overview

Global competition is reordering traditional governing structures, as transitional countries seek to build more competitive, demand-driven markets. If communities in the region are to be successful in attracting economic development, the roles of both the local and the national governments must be redefined and governing responsibilities reassigned. Using the United States and European Union as models, this session will focus on the national framework required for effective local economic development in a global economy. The presentation examines the impact the national framework has on effective legislative, regulatory, and fiscal policies and discusses which level of government can be most effective in taking on the responsibility for various types of policy.

Government responses to the challenge of restructuring the governing framework have varied depending on the economic and political conditions in the country. In this session, case studies that describe the economic development activities of the region's communities during the ongoing transition should be presented. Each speaker should explain the actions taken in the context of the national political and economic conditions that existed.

Session Objectives

- < To identify and explore the impact of macroeconomic conditions that affect competitiveness, particularly trade policy and export regulations.
- < To identify the legal and regulatory framework necessary for local government officials to most effectively improve the economic conditions in their community (giving special attention to a balance between fiscal authority and administrative responsibility).
- < To examine various approaches that mitigate the effects of a weak legal and regulatory framework.
- < To identify the level(s) of government that should be the nexus of control for certain laws, regulations, and programs.
- < To discuss interim steps that will reduce the impact of ineffective national policy and macroeconomic conditions.



Trainer's Notes

1¼ hours Presentation: The Role of Local Government in the Global Economy

This presentation is a plenary with open discussion and analysis. The presentation is based on the talking points and overheads that follow the presentation notes. You will need to refer to these to prepare this presentation.

- 15 min* 1. Begin by introducing the topic and relating it to the five principles of local economic development introduced in Session 1. Ask participants to think about what makes a local government successful in attracting new businesses and encouraging the growth of existing business. List responses on the flip chart.
- 50 min* 2. Once you have generated a list, use the participants' responses as a springboard to your presentation. Follow the talking points and the overheads to discuss how local governments can affect economic development. Emphasize throughout your presentation the specific role and power that the local government has in this effort. Use specific examples to illustrate how other communities have effectively implemented the principles discussed.
- 10 min* 3. Ask if there are any questions before continuing with the guest speakers' presentations.

2 hours Case Studies: The Role of Local Government in the Global Economy

These presentations from guest speakers are meant to apply the concepts introduced in the presentation. Because the session relies on open discussion to bring home key points, the facilitator must be energetic and aggressive in helping participants understand the link between global economic trends, national policies, and local economies and government. The case study outline in the Overview is designed to help speakers prepare their presentations.

- 60 min* 1. Introduce the two guest speakers, who will share information about the economic development initiatives in their communities and the actions that the local government and other community groups have taken. Allow each speaker 25 minutes for his or her presentation. Following each presentation, ask for questions from the audience.

- 20 min*
2. Link the case presentations back to the general principles outlined earlier. To generate an open discussion, ask participants the following questions about each of the cases:
- < How did macroeconomic factors create opportunities for the economic development activity described? How did they make the initiative more difficult?
 - < What steps did the community take to mitigate the impact of ineffective or detrimental laws or regulation? Are there other steps that might have also been effective?
- 30 min*
3. Continue by relating the discussion to the participants' own experiences. Ask:
- < What similarities exist between conditions in your own community and those of the presenters?
 - < What would be the appropriate agency, ministry, or other institution to work with to facilitate the necessary changes in laws and regulations as described in the presentation?
 - < What do you believe to be the most difficult aspect of the local government's role in economic development, based on what you have heard? What is the most important role of the local government? Encourage participants to share their experiences in addressing these issues.
- 10 min*
4. Conclude with a summary of the discussion. Make sure to touch on the following key points:
- < Characteristics of a good investment climate include flexibility, accessibility, predictability, and transparency.
 - < Any local government can take actions that improve the business environment, even where there is no national framework for economic development in place.
 - < Municipal leaders who understand the needs and operations of private firms add value to the economic development environment.
 - < Community leaders must understand how global economic forces affect local firms and the resulting opportunities that may be created.
 - < Citizens and citizen groups, industry, and government must work together.



Talking Points: The Role of Local Government in the Global Economy

The following ten ideas, from a practitioner's perspective, can help ensure success in economic development activities:

1. Think globally; act locally.
2. Adjust to the radical rate of change in the world today and in transition economies in particular. Local economic development deals with the business of change.
3. Keep in mind that economic development is a long-term proposition. Use short-term tactics to reach long-term goals.
4. Focus on small and medium-sized enterprises (SMEs), with which you are most likely to be successful. Growing domestic SMEs is better than importing large foreign companies.
5. Exports are essential. Today's markets are regional.
6. Gain a comparative advantage in local economic development by attracting smart people and smart firms and building smart communities.
7. Be creative. Think outside the box. Innovation is key to economic development.
8. Remove barriers to economic development. Make it efficient and easy for businesses to come into the community. Look for ways to reduce information costs and transaction costs. Avoid over-regulation and prejudice. Look for opportunities to pool and spread risk.
9. Forge partnerships among the three sectors of the community. The role of the private sector involves generating jobs, income, and wealth; the role of the public sector is to steer economic activities; and the role of nongovernmental organizations is to ensure accountability.
10. Use your imagination.

Catchwords of Business Attraction

- < Transparency
- < Predictability

- < Ease
- < Flexibility.

Ten Best Practices for Economic Development Organizations

1. **Scale:** To make a difference, a project must achieve a scale that enables it to influence the mainstream economy, rather than operating as a good pilot effort on the margin.
2. **Market driven:** A “best practice” economic development initiative aims to improve the effectiveness of the marketplace, rather than simply create public services. The goal is to influence thousands of private-sector decisions.
3. **Leverage:** A primary means to achieve scale and change the market is the use of public dollars, incentives, or requirements to leverage vastly greater private investments or actions.
4. **Private ownership:** When private organizations (e.g., businesses, unions, universities) control an economic development initiative, they take it far more seriously than if it is publicly owned and controlled. The most effective “programs” are often those run by the private sector.
5. **Flexibility/adaptability:** Markets change. The best economic development initiatives are structured to accommodate these changes in the marketplace. This means no legislative micro-management.
6. **Performance driven:** Along with flexibility comes accountability. Outputs and outcomes, not inputs, must be measured, and management held accountable for results.
7. **Private management standards:** “Best practices” succeed in part because they are managed by the best managers. Good management requires incentive-driven pay on par with comparable private-sector opportunities.
8. **Customer driven:** Successful initiatives carefully identify their customers, focus on delivering services to meet the needs of that customer base, offer choices, and distinguish customers from constituencies.
9. **Focused on regions and sectors:** Local governments must work with others in their region to build a program that will attract major industry. Effective economic development initiatives encourage cooperation rather than competition among communities in a region and allow for implementation at regional and sectional levels so that initiatives can be tailored to the needs of different regions and industries.

10. Self-sustainability: A “best practice” must demonstrate an ability to endure through political and fiscal changes. Its governance and financial structures must therefore balance independence with accountability.

Economic Growth vs. Economic Restructuring

Economic growth or decline happens to an economy; it is the net impact of external national and international market forces and policy decisions on a local or regional economy. At its most extreme, local employment, income, and quality of life rise or fall under the whim of decisions and actions far removed from local control or hard work.

Economic restructuring, on the other hand, is choice. It occurs when local leaders choose to identify, invest in, and develop the community’s unique set of “comparative advantages,” enabling workers, firms, and industries to better compete in regional, national, and international markets. Economic restructuring means making market forces work for , rather than upon, the community.

National governments can create macroeconomic conditions that facilitate local and regional economic development. They can create stable currencies with low levels of inflation; remove trade barriers from export and import markets; implement sound and transparent legal, economic, financial, tax, and regulatory systems; encourage open and transparent financial and labor markets; and build reliable political systems.

The local government’s role is to build market-driven, public-private partnerships that will create long-term jobs, income, and wealth. In the end, the town or region must restructure itself. Economic restructuring is successful only if it is a long-term process with commitment, driven by an innate understanding of local comparative advantages, and continually adapted and adjusted as needs and opportunities change.

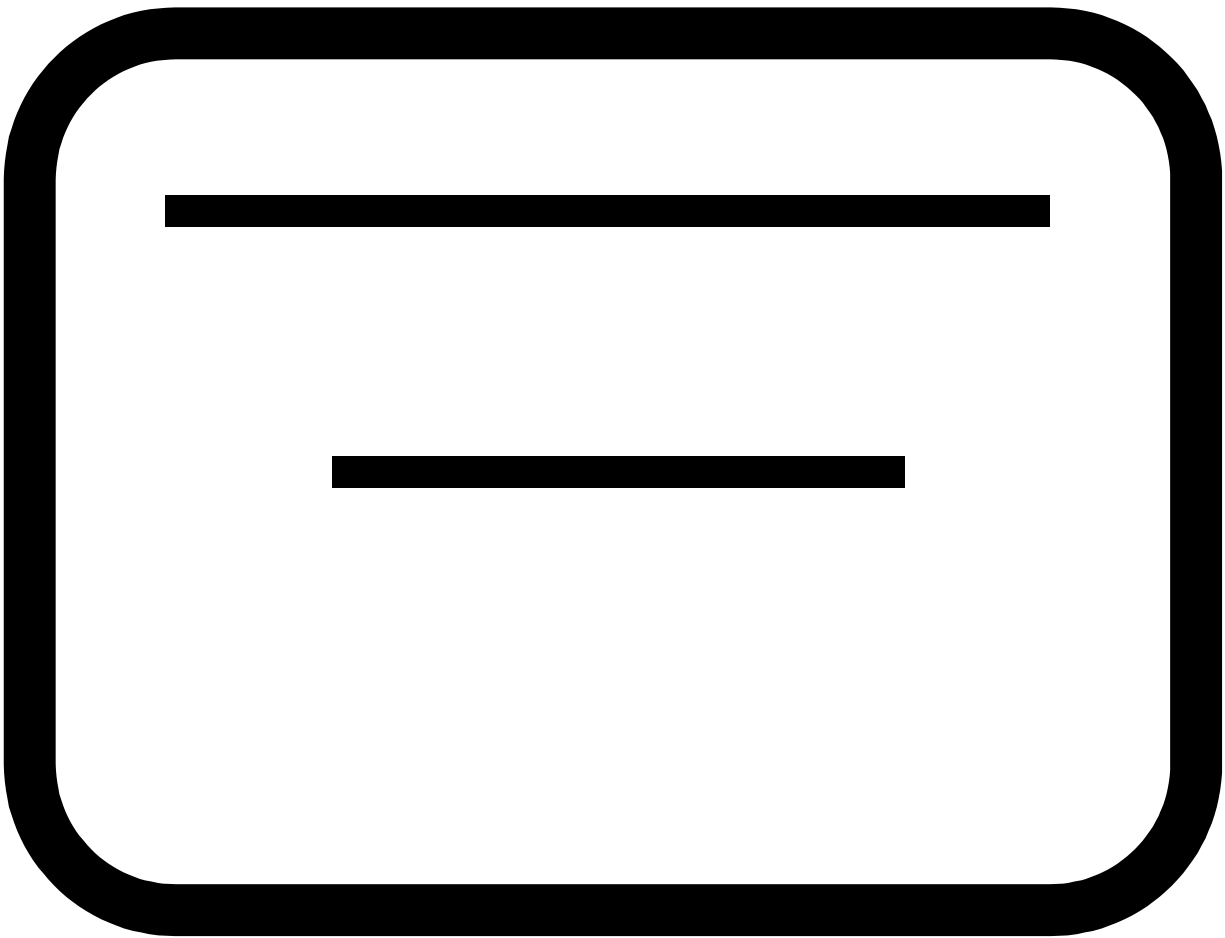
Steps in this process:

1. Focus on the economic base. All firms in every community in every nation of the world are competing in today’s increasingly integrated global marketplace. Only those firms that export goods and services from a local market to a regional, national, or international market are importing new wealth, new income, and new jobs to build the local economy. Economic base industries drive the economy; distributive industries—secondary and tertiary firms—recirculate wealth that is already within the local economy. The first step in restructuring is to identify the economic base firms that drive the economy and to develop a strategy to expand and diversify that base.
2. Build on your comparative advantage. The welfare of a region depends upon the development of industries that possess a comparative advantage in the

external market. Trade is mutually profitable if every economy specializes in those products and services in which it is most efficient.

3. Identify market barriers—those problems that prevent a local economy from performing at its potential. Market barriers tend to fall into the following categories:
 - < High information or transaction costs
 - < Market prejudice
 - < Risk aversion
 - < Insufficient competition
 - < Government regulations and policies.
4. Correct the causes of market barriers. Focus on causes, not symptoms. Approaches could include business foundation strategies or business recruitment strategies.
5. Keep your initiative focused. Help leadership focus on building local comparative economic advantages and on removing market barriers. Take these steps:
 - < Develop your own economic restructuring strategy only after carefully evaluating local market opportunities and potential barriers to success.
 - < Continually revise the market evaluation.
 - < Define the economic area you intend to redevelop.
 - < Gather information from sources outside your region on your economy, industries, and public infrastructure to learn how your region is perceived by outsiders.

Overheads



Catchwords of Business Attraction

< Transparency

< Predictability

< Ease

< Flexibility

Role of Local Government in Economic Restructuring

- < Build market-driven, public-private partnerships that will create long-term jobs, income, and wealth.
- < Commit to a long-term restructuring process that takes local comparative advantages into account and continually adjust the process as circumstances change.

Steps in Economic Restructuring

- < Focus on the economic base
- < Build on your comparative advantage
- < Identify market barriers
- < Correct the causes of market barriers
- < Keep your initiative focused